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DIRECTORATE OF  
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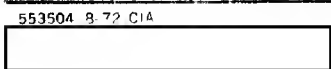
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(VIETNAM: The government's counteroffensive in coastal Quang Nam Province has met stiffened Communist resistance.

Heavy fighting broke out a few miles east of enemy-held Que Son District town following two days of relatively light Communist opposition to the cautious government advance. The enemy again shelled the government's staging area at Fire Support Base Baldy as well as the nearby district town of Thang Binh on Route 1 in adjacent Quang Tin Province. These actions adhere closely to purported enemy plans, gleaned from prisoners and captured documents, to use North Vietnamese troops to attack populated areas and interdict Route 1 while local Viet Cong forces tie down government troops. Apparently in coordination with the enemy action in the Que Son Valley, Communist harassing activity in other areas of Quang Nam Province has increased substantially, and there was another light rocket attack against Da Nang yesterday.

Communist shellings of South Vietnamese Marines in the Quang Tri City area continue at a high level. A small marine contingent reached the northeastern corner of the citadel on 22 August but was driven back by intense artillery and mortar fire. Sharp skirmishes were reported elsewhere in the city. To the south, enemy pressure lessened against airborne positions.

South of Hue, government troops clashed with enemy sapper elements near Phu Bai and were struck by some 750 rounds of mortar fire. The detection of another North Vietnamese regiment in this area suggests a step-up in enemy pressure against government positions guarding the southern approaches to Hue.

North of Saigon, the Communists ambushed a South Vietnamese Ranger unit on Route 13 near Lai Khe, resulting in 67 Rangers wounded and 112 missing. [redacted] the Communists' 9th Division is planning attacks against the district town of Tri Tam and other installations in Binh Duong Province west of Lai Khe. [redacted]

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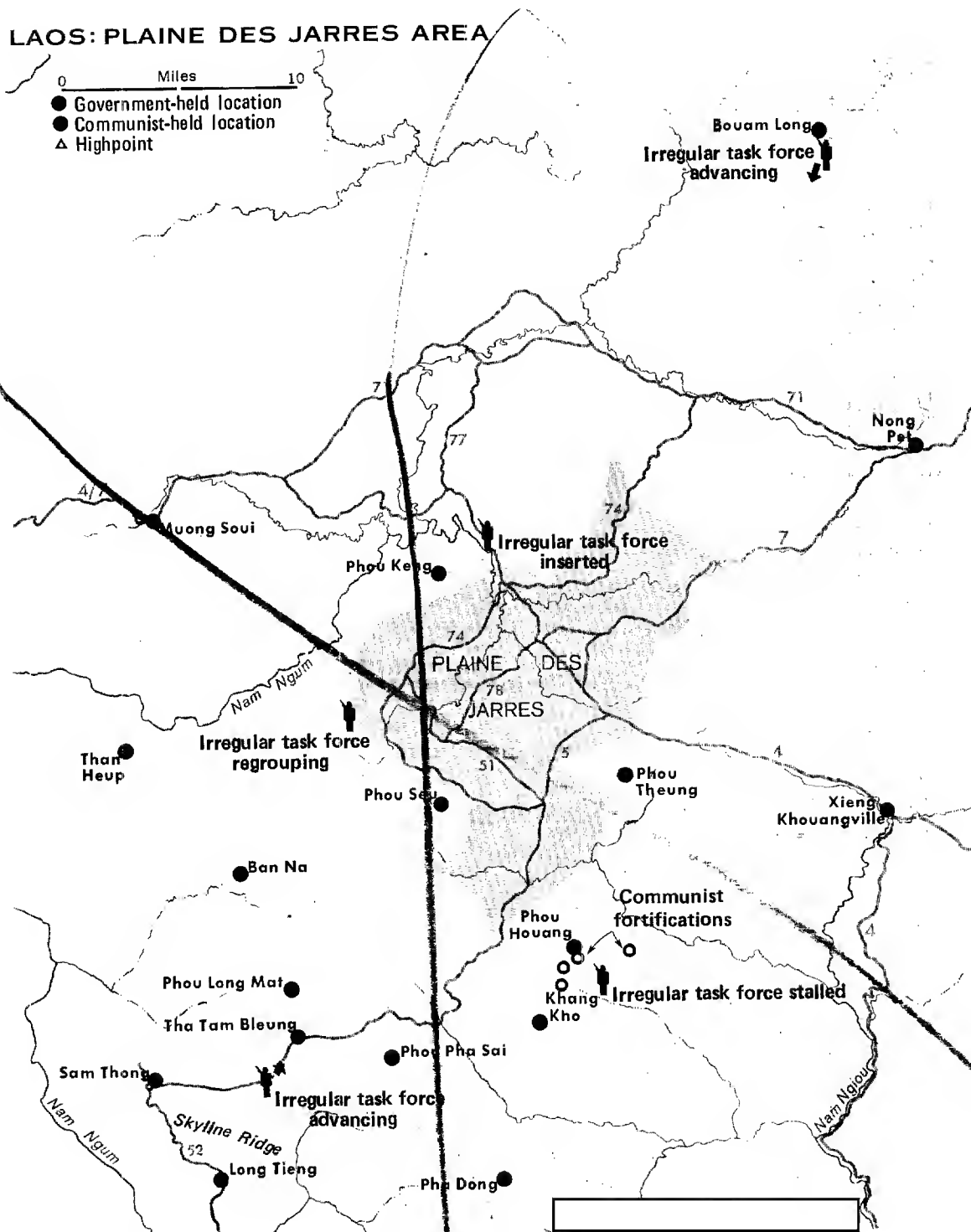
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LAOS: Vang Pao is committing additional troops to his offensive in the north.

Advance elements of a multibattalion task force on 22 August began moving toward the Plaine des Jarres from Bouam Long, an isolated government stronghold north of the Communists' major supply lines to the Plaine. The task force presumably hopes to force the North Vietnamese to divert some of their troops from the Plaine to protect these vital routes.

Several other irregular battalions have been airlifted to a landing zone near Phou Keng, a strategic hill overlooking the northwest Plaine. The North Vietnamese fired mortars at the helicopters landing government troops, but caused no damage or casualties.

The other task forces participating in the offensive continue to encounter sporadic resistance. One force is regrouping on the western edge of the Plaine while awaiting additional orders from Vang Pao. Three battalions attempting to move from the southeast have not tried to dislodge Communist troops from the ridge at the edge of the Plaine because bad weather has limited air support.

General Vang Pao thus far has committed about 6,000-7,000 of his indigenous tribesmen to forays against the Plaine. In addition, elements from the 4,200-man force that since May has been holding positions east of Sam Thong have begun to test the North Vietnamese defenses in the hills near Tha Tam Bleung. The North Vietnamese have five infantry regiments near the Plaine. [REDACTED]

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ICELAND-UK: Both countries are attempting to prevent their stalemated negotiations on the fishing limits dispute from degenerating into ugly incidents at sea when Iceland's unilateral extension of its jurisdiction to 50 miles offshore goes into effect on 1 September. The dispute also could exacerbate the problem of the US-manned Icelandic Defense Force.

The British have won a favorable verdict from the International Court of Justice, but Iceland has refused to recognize the court's jurisdiction. London believes that, in these circumstances, agreeing to negotiation on Iceland's improved offer on residual fishing rights, tendered on 11 August, would undermine its case. At the same time, the UK plans to be circumspect, particularly by respecting the court's decision on catch limitations. It also intends to leave open the door to negotiations, as Icelandic Foreign Minister Agustsson wishes, perhaps by offering to open new talks in an expanded forum.

Statements by a spokesman of the British Trawler Federation reflect less moderation. UK fishermen appear determined to continue fishing within the 50-mile zone and to defend themselves, if necessary. Moreover, the UK will have unarmed civilian boats on station to assist the trawlers should the Icelanders attempt widespread arrests.

The Icelandic Government is looking for a way out of the impasse, but its flexibility is limited. The extension, a major pledge of the government's program, enjoys support even from the opposition parties.

Agustsson told a US official on 22 August that he does not expect open US support, but he asked for private assistance with the British. In urging this, he argued that a bitter confrontation would



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[inevitably have an effect on Iceland's NATO membership and, in turn, on continuation of the defense force. The government is pledged also to negotiate a withdrawal of the force by 1975, but Agustsson's Progressive Party has indicated it is prepared to face down its Communist-dominated Labor Alliance coalition partners with only modest alterations in the defense force arrangement. [REDACTED]

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CHILE: The expected 20-percent rise in the cost of living this month will be the largest on record and is aggravating already acute consumer anxieties over widespread shortages.

Recently authorized price increases for food and other consumer goods have driven the controlled price index up 60 percent so far this year. The true inflation rate, moreover, is considerably higher, because black market prices for goods included in the index are as much as eight times the official level, and prices for non-controlled items also are rising rapidly.

Last year's estimated 26-percent increase in real wages sparked a consumer spending spree that helped to launch the price spiral. Wage gains thus far this year, however, have been more than offset by rising prices. Inflationary pressures have become more severe as a result of large-scale government deficit spending, currency devaluation, declining agricultural output, inadequate industrial capacity, and distribution bottlenecks. The Allende government now has committed itself to new wage increases large enough to restore workers' purchasing power to last January's level. This politically motivated action will further complicate the nation's economic problems.

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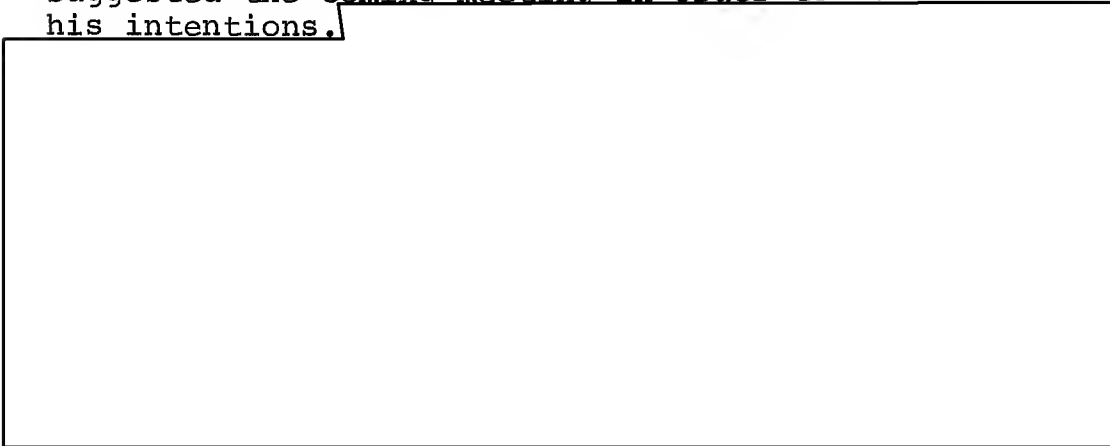
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INDIA-PAKISTAN: Indian and Pakistani delegations will meet in New Delhi tomorrow in an attempt to halt the recent increase in mutual suspicions which is threatening the Simla agreement of last July.

According to a Pakistani Foreign Ministry official, Prime Minister Gandhi has requested the meeting. She wants the two sides to discuss the repatriation of Hindu Pakistani citizens who crossed the western border into India during the war of December 1971, the establishment of a "line of demarcation" in Kashmir, and the recognition of Bangladesh. According to the Pakistani official, Bhutto has assured Mrs. Gandhi that he intends to make progress on all three fronts, but that the situation would be greatly improved if Bangladesh would cease using the prisoner-of-war issue as a "lever to force recognition."

Since Simla, Mrs. Gandhi has had second thoughts as to Bhutto's continued sincerity and may well have suggested the coming meeting in order to reassess his intentions.



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PEKING-TOKYO-MOSCOW: Another Triangle

For the past year at least there has been greatly increased activity in the triangular relationship between China, Japan, and the USSR. Latent last summer and fall, this triangular tangle of affairs has become more manifest as the moment approaches for the beginning of major negotiations between Japan and China, on the one hand, and Japan and the USSR, on the other. Not all sides of the triangle, however, are of equal length. Sino-Japanese attraction and Sino-Soviet enmity are at present most important, while the Japanese-Soviet leg of the triangle is much less clearly defined.

The year-long maneuvering between Japan and China on the question of recognition is now approaching its denouement. Prime Minister Tanaka apparently will be going to Peking in late September. He has announced that he will make the journey, but no date has been set publicly. Nevertheless, the Japanese press has been insisting that he will depart about that time. Moreover, most of the ground has already been prepared for the journey to Peking. The Japanese have made it clear in public that they will in effect accept the Chinese "three principles"--that Peking is the sole legitimate government of China, acknowledgement that Taiwan is part of China, and abrogation of the 1952 peace treaty signed by Tokyo and Taipei. They have also made it clear that they are prepared for a diplomatic break with the Nationalist government as the price for recognition of Peking. In addition, Tanaka has gone through the proper motions to demonstrate to the public--and to the Chinese--that a consensus exists within the ruling Liberal-Democratic Party (LDP) on the China issue.

In taking this tack, Tanaka is clearly allowing political considerations to take precedence over legalisms as the actual negotiations approach. This

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is as true of China as it is of Japan. With its unconditional invitation to Tanaka, Peking is now in effect saying publicly what Chou En-lai was saying privately for the past year in anticipation of the eventual and inevitable retirement of former Prime Minister Sato: that China will not demand public Japanese acceptance of its three principles as a precondition for negotiations. Moreover, it seems increasingly clear that Japanese trade with Taiwan will be no real obstacle to recognition and that Peking is unlikely to make an issue of the Taiwan link in the US-Japan security relationship. In all this, Peking's aims and interests have remained as consistent as its negotiating posture. The Chinese want an early and successful end to the negotiations in order to foreclose the possibility that the international situation might drift in the direction of "one China - one Taiwan." Recognition by Japan of Peking's juridical claims would be an important milestone in the effort to preclude this. Moreover, the Chinese hope that close relations with Japan will help them counter Soviet pressures in Asia and increase pressure on the US to further amend its Chinese policy.

What is new in the current situation, however, is Peking's extraordinary interest in getting Tanaka to China at the earliest possible moment. Through a variety of devices, Chou has signaled to Tokyo that he is anxious for a meeting very soon. In late July, Chou abruptly summoned to China Yoshikatsu Takeiri, leader of the Komeito Party, which has been advocating recognition for the past two years. Upon Takeiri's return preparations for the prime ministerial visit seemed to move into high gear, as did speculation by Japanese officials as to why China was so anxious for rapid normalization. This suggests that Chou pressed hard for an early visit and emphasized Peking's flexibility on recognition terms. Japanese officials have hinted this was the case through a number of calculated leaks.

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Chou's concerns in taking this tack are not hard to discern. He is probably far more interested in getting Tanaka to Peking and in obtaining visible movement on the recognition issue than in wrapping up the whole matter of recognition in one fell swoop--perhaps an unrealistic proposition in any event. Chou wishes to move far enough down the road to recognition so that hardliners in the LDP would be ineffective in any attempt to draw out the negotiations. But perhaps his paramount concern relates to the USSR. The success of Soviet detente efforts in the West intensifies the Soviet threat in Chou's eyes, and the prospect of the Japanese-Soviet preliminary peace treaty negotiations starting in September increases his desire to normalize relations with Japan quickly.

From Moscow's point of view, events have already moved so far and so fast in Sino-Japanese affairs in the weeks since Tanaka took office that it can now be under few illusions that present trends can be arrested. The Soviets can hardly be happy over this turn of events, however much they may have anticipated Tokyo's movement toward Peking. Soviet officials have lost few opportunities in the past eight months to warn the Japanese about the "dangers and pitfalls" of attempting to regularize relations with Peking. They have dangled before Tokyo the possibility of major Japanese investment in Siberia and have hinted--usually none too specifically--that some kind of arrangement on the Northern Territories question was feasible.

Soviet aims in all this have been largely defensive. Foreign Minister Gromyko's visit to Japan last January was arranged after the "Nixon shocks" of the previous summer, and although Moscow wanted to assess and take advantage of the new strains in US-Japanese relations, there are few signs that Moscow thought there was any serious chance of displacing US influence in Japan. More important, the

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Soviets clearly saw that Japanese moves toward Peking were inherent in the situation of late 1971, and they wished to do what they could to balance them.

It was in this context that Gromyko agreed to discuss the Northern Territories issue, thereby tentatively accepting a Japanese precondition that the Soviets had long rejected. The magnitude of this concession in Soviet eyes is clear when considered in the light of other territorial issues, both in the west and along the Chinese border.

The Japanese seem well aware of the Soviet game. In this respect, reaction in Japan to Moscow's latest ploy on the Northern Territories issue is significant. Several weeks ago the ubiquitous Victor Louis suggested to a Japanese newsmen in Moscow that a possible compromise on the question could involve return of the two minor islands to Japan and Soviet "leasing" of the two larger islands to Tokyo. The outcry in the Japanese press was immediate and fierce, and Soviet Foreign Ministry officials, who may have expected to raise this idea when the talks opened in September, were clearly embarrassed. This incident was quickly followed by a formal statement by the new government in the Diet to the effect that Tokyo would not conclude a peace treaty with Moscow unless all four islands were returned.

Japan's refusal to contemplate a compromise on the Northern Territories prior to the opening of the preliminary peace treaty talks, while at the same time apparently accepting most of Peking's demands before the Tanaka trip, points up the difference in Tokyo's relationship to the two powers. Japanese toughness vis-a-vis Moscow suggests that the new cabinet sees little utility in attempting to play the Soviet card in the hope of getting better recognition terms from China. Indeed, the Japanese have probably concluded that they already have the best terms they could realistically expect to get. Instead, Moscow's anxiety probably encourages them to

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believe that the Chinese card can be played effectively against the Soviets, both in the peace treaty and upcoming Siberian investment talks.

In making this calculation, Tanaka and company are helped by the fact that they are not nearly as constrained politically in dealing with Moscow as they are in dealing with Peking. There is little public pressure to conclude a peace treaty with Moscow soon, and the Northern Territories issue does not raise political temperatures as high as does the Chinese recognition question. Moreover, since diplomatic relations have already existed with Moscow for years, there is relatively much further to go in relations with Peking, and the Japanese Government probably feels that over the long run recognition in itself will have something of a stabilizing effect in East Asia.

In these circumstances the Soviet-Japanese negotiations are likely to move slowly and fitfully. As it becomes increasingly apparent that the movement toward normalization of relations with Peking has too much momentum to be stopped, at least some Soviet incentives to strike an easy bargain are correspondingly decreased. But even toward the end of the Sato period--when Moscow may have thought there was more prospect of slowing that momentum--it was not forthcoming regarding the actual return of the islands and was not especially conciliatory on economic matters. Indeed, the Soviet leaders may not yet have decided whether they are prepared to return the islands, which the Japanese feel they must have. In short, the prospects are for protracted negotiations across the board, with both sides trying to combine political and economic issues in a package that offers each some advantages.

Finally, all three nations are likely to keep a sharp eye on the United States throughout the proceedings, as well as on each other, realizing that any major shifts in US policy could rattle, if not upset, the table on which the game is being played.

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